

Message Text

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ACTION ARA-14

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FM AMEMBASSY LIMA
TO SECSTATE WASHDC IMMEDIATE 168

C O N F I D E N T I A L LIMA 4525

ARA FOR DAS BUSHNELL

E.O. 11652: GDS
TAGS: EFIN PE
SUBJ: GOP FINANCIAL MISSION CLEARS FIRST HURDLE: TALKS WITH IMF
TODAY

REF: LIMA 4496

1. WE UNDERSTAND THAT MANUEL MOREYRA'S TALKS WITH STEERING COMMITTEE MAY 23 WERE PROMISING, AND THAT COMMITTEE HAS AGREED TO RECOMMEND ROLLOVER OF ALL GOP MEDIUM-TERM PUBLIC SECTOR MATURITIES UNTIL DECEMBER 31, 1978, WHICH CITIBANKER HERE ESTIMATES AMOUNTS TO SOME \$200 MILLION. THIS WILL INVOLVE NEGOTIATIONS WITH MORE THAN 100 CREDITOR BANKS AND WILL PROBABLY TAKE 3-4 WEEKS. IN THE MEANTIME UNDER "STANDSTILL" PROCEDURE GOP WILL NOT HAVE TO PAY THE PRINCIPAL ON ANY MATURING OBLIGATIONS. MOREYRA AND HIS TEAM REPORTEDLY HAVE PROCEEDED TO WASHINGTON FOR BRIEF MEETING WITH IMF BEFORE RETURNING TO LIMA TOMORROW.

2. BANKERS HERE ESTIMATE THAT THIS WILL MAKE POSSIBLE ALMOST IMMEDIATE RELIEF FOR EMBATTLED PRIVATE SECTOR -- CENTRAL BANK WITHHOLDING OF 45-60 PERCENT OF EXPORT EARNINGS CAN NOW BE SUBSTANTIALLY REDUCED, THUS RELEASING
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ADDITIONAL FUNDS OVER BALANCE OF YEAR TO PERUVIAN COMMERCIAL BANKERS TO MEET THEIR OWN FOREIGN MATURITIES, AND PERMIT MORE NORMAL OPERATIONS FOR IMPORT TRANSACTIONS (LETTERS OF CREDIT, ETC.). PORTION OF EXPORT RECEIPTS STILL RETAINED BY CENTRAL BANK COULD BE USED TO STABILIZE FOREIGN EXCHANGE MARKET AS NEW CENTRAL BANK TEAM MOVES EXCHANGE RATE THROUGH

CRAWLING PEG MECHANISM, REPORTEDLY TOWARD 180-190/\$
LEVEL BY END OF JULY.

3. COMMENTS: A) DESPITE THIS INITIAL GOOD NEWS, THE
BATTLE IS FAR FROM WON AND NEXT 3-4 WEEKS AS ROLLOVER
NEGOTIATIONS PROCEED WILL BE VERY CRITICAL ONES FOR
GOP. AS NOTED REFTTEL, NEW CIVILIAN ECONOMIC TEAM IS
VERY MUCH ON TRIAL, AND IF ROLLOVER NEGOTIATIONS
FAIL RESULT COULD BE MOST UNFORTUNATE.

B) NEW ROLLOVER AGREEMENT APPARENTLY CHANGES PREVIOUS
CONCEPT OF LINKAGE OF BANKS' ACTIONS TO IMF STANDBY.

C) ROLLOVER IN AMOUNT OF \$200 MILLION AS SUBSTITUTE
FOR LARGER \$260 MILLION BALANCE OF PAYMENTS LOAN ORI-
GINALLY ENVISIONED DOES HAVE EFFECT OF INCREASING GOP'S
1978 RESIDUAL FINANCIAL GAP.

4. LOCAL PRESS REACTION TO MOREYRA TEAM VISIT BEING
REPORTED SEPTTEL.
SHLAUDEMAM

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